

## REVENUE ESTIMATES

The revenue estimates reflect the broad-based decline in the global, national and state economies, which became undeniably apparent in late October 2008. Key factors negatively affecting California's revenue collections include the distressed stock markets, as well as the ongoing credit crunch, and continued fallout from the depressed housing market. As a result, corporate profits, individual income, and consumer spending have all contracted.

Baseline revenues in 2008-09 are now expected to total \$87.5 billion—\$3.9 billion below the 2008-09 November Special Session forecast and \$14.5 billion below the estimate at the time the 2008 Budget was enacted in late September. For 2009-10, baseline revenues are expected to decline further to \$86.3 billion, a 1.4-percent decrease from 2008-09. With the Administration's revenue proposals for addressing the budget shortfall, revenues are estimated to be \$91.1 billion in the current year and \$97.7 billion in budget year.

Figure REV-01 displays the forecast changes between the 2008 Budget Act and the Governor's Budget. The Governor's Budget forecast was prepared in early December, before individuals and corporations made final withholding and estimated payments for the 2008 tax year, and before consumers completed their December purchases. These critical December and January receipts can have a large impact on state revenues. This forecast will be revised in early May when these data and April income tax receipts are available.

### MAJOR REVENUE PROPOSALS

- Temporary 1.5-cent increase in the Sales and Use Tax rate.
- Broaden the Sales and Use Tax base to include certain services.
- Increase the Beverage excise tax by a per gallon surtax equivalent to a “nickel-per-drink.”
- Adopt a 9.9-percent Oil Severance Tax.
- Reduce the personal income tax dependent exemption credit to equal the personal exemption credit.
- Increase the vehicle registration fees. (See “Special Fund Revenue” section below)
- Shift Tribal Revenues from Transportation to General Fund
- Transfer and borrow balances from special funds

The state’s tax system is outlined in Figure REV-02. Tax collections per capita and per \$100 of personal income are displayed in Schedule 2 in the Appendix. The revenue generated from each state tax from 1970-71 through 2009-10 is displayed in Schedule 3 in the Appendix.

### MAJOR REVENUE PROPOSALS

The following tax law changes are proposed, including those proposed by the Governor for the 2008-09 November and December Special Sessions:

**Temporary Sales Tax Increase:** Effective March 1, 2009, the General Fund Sales and Use tax rate would be temporarily increased by 1.5 cents, from 5.0 percent to 6.5 percent. The proposed tax rate increase would be in effect through December, 2011. On January 1, 2012, the General Fund Sales and Use tax rate would return to 5 percent. This proposal is expected to generate additional sales tax revenues of \$2.35 billion in 2008-09 and \$7.114 billion in 2009-10 for the General Fund. These amounts include \$356 million that will be transferred under Proposition 42 to the Transportation Investment Fund in 2009-10.

**Broaden the Sales and Use Tax to Include Certain Services:** Effective March 1, 2009, the sales and use tax would be extended to appliance and furniture repair, vehicle repair, and veterinarian services. Effective April 1, 2009, the sales and use tax rate would be applied to amusement parks, sporting events, and golf. Selection of these services was based on ease of implementation as these services are generally provided by entities that already have a relationship with the Board of Equalization. Assuming a 6.5-percent General Fund tax rate, this proposal is expected to generate additional General Fund sales tax revenue of \$272 million in 2008-09 and \$1.154 billion in 2009-10. These estimates assume initially low collections but significant improvements in

Figure REV-01  
**2009-10 Governor's Budget**  
**General Fund Revenue Forecast**  
**Summary Table**  
**Reconciliation with the 2008-09 Budget Act**  
(Dollars in Millions)

		Governor's Budget				
	Budget Act	Baseline	Change From Budget Act	Proposed	Change From Budget Act	
Source						
<b>Fiscal 07-08</b>						
Personal Income Tax	\$54,380	\$54,234	-\$146	\$54,234	-\$146	-0.3%
Sales & Use Tax	26,813	26,613	-200	26,613	-200	-0.7%
Corporation Tax	11,926	11,849	-77	11,849	-77	-0.6%
Insurance Tax	2,171	2,173	2	2,173	2	0.1%
Alcoholic Beverage	334	327	-7	327	-7	-2.1%
Cigarette	114	110	-4	110	-4	-3.5%
Other Revenues	6,077	6,031	-46	6,031	-46	-0.8%
Transfers	<u>1,212</u>	<u>1,237</u>	<u>25</u>	<u>1,237</u>	<u>25</u>	<u>2.1%</u>
<b>Total</b>	<b>\$103,027</b>	<b>\$102,574</b>	<b>-\$453</b>	<b>\$102,574</b>	<b>-\$453</b>	<b>-0.4%</b>
<b>Fiscal 08-09</b>						
Personal Income Tax	\$55,721	\$46,807	-\$8,914	\$46,807	-\$8,914	-16.0%
Sales & Use Tax	27,111	25,154	-1,957	27,778	667	2.5%
Corporation Tax	13,073	10,197	-2,876	10,197	-2,876	-22.0%
Insurance Tax	2,029	1,831	-198	1,831	-198	-9.8%
Alcoholic Beverage	341	326	-15	599	258	75.7%
Cigarette	114	113	-1	113	-1	-0.9%
Oil Severance Tax	N/A	0	NA	358	358	N/A
Other Revenues	2,787	2,229	-558	2,323	-464	-16.6%
Transfers	<u>816</u>	<u>819</u>	<u>3</u>	<u>1,111</u>	<u>295</u>	<u>36.2%</u>
<b>Total</b>	<b>\$101,992</b>	<b>\$87,476</b>	<b>-\$14,516</b>	<b>\$91,117</b>	<b>-\$10,875</b>	<b>-10.7%</b>
Change from Fiscal 07-08	-\$1,035	-\$15,098		-\$11,457		
% Change from Fiscal 07-08	-1.0%	-14.7%		-11.2%		
<b>Fiscal 09-10</b>						
Personal Income Tax	\$55,863	\$46,493	-\$9,370	\$47,942	-\$7,921	-14.2%
Sales & Use Tax	29,248	25,515	-3,733	33,793	4,545	15.5%
Corporation Tax	11,982	10,441	-1,541	10,445	-1,537	-12.8%
Insurance Tax	2,135	1,798	-337	1,798	-337	-15.8%
Alcoholic Beverage	348	331	-17	955	607	174.4%
Cigarette	112	111	-1	111	-1	-0.9%
Oil Severance Tax	N/A	0	NA	855	855	N/A
Other Revenues	2,906	1,573	-1,333	1,677	-1,229	-42.3%
Transfers	<u>15</u>	<u>33</u>	<u>18</u>	<u>132</u>	<u>117</u>	<u>780.0%</u>
<b>Total</b>	<b>\$102,609</b>	<b>\$86,295</b>	<b>-\$16,314</b>	<b>\$97,708</b>	<b>-\$4,901</b>	<b>-4.8%</b>
Change from Fiscal 08-09	\$617	-\$1,181		\$6,591		
% Change from Fiscal 08-09	0.6%	-1.4%		7.2%		
<b>Three-Year Total</b>			<b>-\$31,283</b>	<b>-\$16,229</b>		

Figure REV-02  
**Outline of State Tax System  
as of January 1, 2009**

Major Taxes and Fees	Base or Measure	Rate	Administering Agency	Fund
<b>Alcoholic Beverage Excise Taxes:</b>				
Beer	Gallon	\$0.20	Equalization	General
Distilled Spirits	Gallon	\$3.30	Equalization	General
Dry Wine/Sweet Wine	Gallon	\$0.20	Equalization	General
Sparkling Wine	Gallon	\$0.30	Equalization	General
Hard Cider	Gallon	\$0.20	Equalization	General
<b>Corporation:</b>				
General Corporation	Net income	8.84% <sup>1</sup>	Franchise	General
Bank and Financial Corp.	Net income	10.84%	Franchise	General
Alternative Minimum Tax	Alt. Taxable Income	6.65% <sup>1</sup>	Franchise	General
<b>Tobacco:</b>				
Cigarette	Package	\$0.87 <sup>2</sup>	Equalization	See below <sup>2</sup>
Other Tobacco Products	Wholesale price	45.13% <sup>3</sup>	Equalization	See below <sup>3</sup>
<b>Energy Resources</b>				Energy Resources
<b>Surcharge</b>	Kilowatt hours	\$0.0002	Equalization	Surcharge Fund
<b>Horse Racing License</b>	Amount wagered	0.4-2.0%	Horse Racing Bd.	See below <sup>4</sup>
<b>Estate</b>	Taxable Fed. Estate	0%	State Controller	General
<b>Insurance</b>	Gross Premiums	2.35% <sup>7</sup>	Insurance Dept.	General
<b>Liquor License Fees</b>	Type of license	Various	Alc. Bev. Control	General
<b>Motor Vehicle:</b>				
Vehicle License Fees (VLF)	Market value	0.65% <sup>8</sup>	DMV	Motor VLF, Local Revenue <sup>9</sup>
Fuel—Gasoline	Gallon	\$0.18	Equalization	Motor Vehicle Fuel <sup>10</sup>
Fuel—Diesel	Gallon	\$0.18	Equalization	Motor Vehicle Fuel
Registration Fees	Vehicle	\$56.00	DMV	Motor Vehicle <sup>11</sup>
Weight Fees	Gross Vehicle Wt.	Various	DMV	State Highway <sup>12</sup>
<b>Personal Income</b>				
Proposition 63 Surcharge	Taxable income	1.0-9.3%	Franchise	General
	Taxable income > \$1 million	1.0%	Franchise	Mental Health Services
Alternative Minimum Tax	Alt. Taxable Income	7.0%	Franchise	General
<b>Private Railroad Car</b>	Valuation		<sup>13</sup> Equalization	General
<b>Retail Sales and Use</b>	Sales or lease of taxable item	5.75% <sup>14</sup>	Equalization	See below <sup>14</sup>

<sup>1</sup> Min. tax \$800 per year for existing corporations. New corporations are exempt from the min. tax for the first two years

<sup>2</sup> This tax is levied at the combined rate of 10 cents/pack of 20 cigarettes for the General Fund, 25 cents/pack for the Cigarette and Tobacco Products Surtax Fund, 2 cents/pack for the Breast Cancer Fund, and 50 cents/pack for the California Children and Families First Trust Fund.

<sup>3</sup> A tax equivalent to the tax on cigarettes. The rate reflects the 50 cents/pack established by the California Children and Families First Initiative, with funding for Cigarette and Tobacco Products Surtax Fund and California Children and Families First Trust Fund

<sup>4</sup> The Fair and Exposition Fund supports county fairs and other activities, the Satellite Wagering Account funds construction of Satellite Wagering Facilities and health and safety repairs at fair sites. Wildlife Restoration Fund and General Fund also receive monies.

<sup>6</sup> The Economic Growth and Tax Relief Reconciliation Act of 2001 phases out the federal estate tax by 2010. As part of this, the Act eliminates the State pick-up tax beginning in 2005. The federal Act sunsets after 2010; at that time, the federal estate tax will be reinstated along with the State's estate tax, unless future federal legislation is enacted.

<sup>7</sup> Ocean marine insurance is taxed at the rate of 5 percent of underwriting profit attributable to California business. Special rates also apply to certain pension and profit sharing plans, surplus lines, and nonadmitted insurance.

<sup>8</sup> Department of Motor Vehicles. Beginning January 1, 1999, vehicle owners paid only 75 percent of the calculated tax, and the remaining 25 percent (offset percentage) was paid by the General Fund. Chapter 74, Statutes of 1999, increased the offset to 35 percent on a one-time basis for the 2000 calendar year. Chapters 106 and 107, Statutes of 2000, and Chapter 5, Statutes of 2001, extended the 35-percent offset through June 30, 2001, and provided for an additional 32.5-percent reduction, which was returned to taxpayers in the form of a rebate. Beginning July 1, 2001, the VLF offset was set at 67.5 percent. From June 30, 2003, through November 18, 2003, the VLF reduction was suspended. On November 17, 2003, Governor Schwarzenegger rescinded the suspension, thereby reinstating the offset. Effective January 1, 2005, the VLF rate is 0.65 percent.

<sup>9</sup> For return to cities and counties. Trailer coach license fees are deposited in the General Fund.

<sup>10</sup> For administrative expenses and apportionment to State, counties and cities for highways, airports, and small craft harbors.

<sup>11</sup> For support of State Department of Motor Vehicles, California Highway Patrol, other agencies, and motor vehicle related programs.

<sup>12</sup> For State highways and State Department of Motor Vehicles administrative expense. Chapter 861, Statutes of 2000, replaced the fee schedule for trucks, based on the unladen weight of commercial trucks and trailers, with a new schedule based on the gross weight capacity of trucks alone, in order to comply with the International Registration Plan standards. Chapter 719, Statutes of 2003, increased weight fees to achieve revenue neutrality as specified in Chapter 861.

<sup>13</sup> Average property tax rate in the State during preceding year.

<sup>14</sup> Includes a 5 percent rate for the State General Fund, a 0.25 percent rate for the Economic Recovery Fund, and a 0.50 percent rate for the Local Revenue Fund.

collections over time. This proposal will also generate revenues for local government agencies of \$113 million in 2008-09 and \$479 million in 2009-10, including \$21 million for local public safety funds in 2008-09 and \$89 million in 2009-10.

**Oil Severance Tax:** Effective February 1, 2009, an oil severance tax would be imposed upon any oil producer extracting oil from the earth or water in California. The tax shall be applied to the gross value of each barrel of oil at a rate of 9.9 percent. Any oil produced by a stripper well, in which the average value of oil as of January 1 of the prior year is less than thirty dollars (\$30) per barrel, will be exempt from this tax. This proposal is expected to generate additional revenues of \$358 million in 2008-09 and \$855 million in 2009-10.

**Increase Alcohol and Excise Taxes by 5 Cents a Drink:** Alcohol excise taxes would be raised by five cents per drink beginning February 1, 2009, with the proceeds to be used for substance abuse and prevention treatment programs. A drink is defined as 1.5 ounces of distilled spirits, 12 ounces of beer, or 5 ounces of wine, which equates to a per-gallon tax of \$0.53 for beer, \$1.28 for wine, and \$4.27 for distilled spirits. This increase is estimated to raise \$244 million in 2008-09 and \$585 million in 2009-10. These estimates are adjusted to reflect an estimate of reduced consumption caused by the increase in price. Alcohol taxes were last raised in 1991. The Governor's Budget proposes that beginning July 1, 2009, proceeds generated from the additional excise tax be transferred from the General Fund to a newly created Drug and Alcohol Prevention and Treatment Fund.

**Personal Income Tax Dependent Exemption Credit:** Beginning with the 2009 tax year, the dependent exemption credit would be reduced to equal the amount of the personal exemption credit. Both credits are indexed annually for inflation. For the 1997 tax year, both exemption credits were \$68. Chapter 612, Statutes of 1997, and Chapter 322, Statutes of 1998, increased the dependent exemption credit to \$253 for the 1998 tax year and \$227 for 1999, and indexed the credit for inflation each year thereafter. For the 2008 tax year, the personal exemption credit is \$99 per filer (joint filers may claim \$198) and the dependent exemption credit is \$309 per dependent. Equalizing the credit amounts is expected to generate additional revenues of \$1.44 billion 2009-10.

**GENERAL FUND REVENUE**

General Fund revenues and transfers represent 76 percent of total revenues reported in the Governor’s Budget. The remaining 24 percent are special fund revenues dedicated to specific programs. The revenue estimates noted in the following discussion include the impact of the tax proposals noted above under “Major Tax Proposals” as well as \$31 million in 2008-09 and \$61 million in 2009-10 from increased efforts to collect under existing law.

**PERSONAL INCOME TAX**

The personal income tax is the state’s largest single revenue source, representing 49.1 percent of all General Fund revenues and transfers in 2009-10. Income tax revenues are expected to decrease by 13.7 percent for 2008-09, and then increase by 2.4 percent for 2009-10. Revenues in 2009-10 reflect \$1.44 billion from the proposed reduction of the dependent exemption credit.

**PERCENT OF GENERAL FUND REVENUES AND TRANSFERS**

Personal income tax	49.1 percent
Sales and use taxes	34.6 percent
Corporation tax	10.7 percent
All other	5.6 percent

Modeled closely on the federal income tax law, California’s personal income tax is imposed on net taxable income: that is, gross income less exclusions and deductions. The tax is steeply progressive, with rates ranging from 1 percent to 9.3 percent. Figure REV-03, which shows the percent of total returns and tax paid by adjusted gross income class, illustrates the progressivity. In 2006, the top 15 percent of state taxpayers, those with adjusted gross incomes (AGI) over \$100,000, paid 84 percent of the personal income tax. The top 1 percent of state taxpayers, those with AGI over \$480,940, paid 48 percent of the personal income tax. Changes in the income of a relatively small group of taxpayers can have a significant impact on state revenues.

**PERSONAL INCOME TAX REVENUE (IN BILLIONS)**

2007-08	\$54.234
2008-09 (Forecast)	\$46.807
2009-10 (Forecast)	\$47.942

Income ranges for all tax rates are adjusted annually by the change in the California Consumer Price Index. This prevents taxpayers moving into higher tax brackets because of inflation without a real increase in income. Tax rates apply to total

taxable income, after which taxpayers can reduce their gross tax liability by claiming different credits.

An alternative minimum tax, imposed at a rate of 7 percent, ensures that income taxpayers do not make excessive use of deductions and exemptions to avoid paying a minimum level of tax.

Capital gains have a substantial impact on state revenues. Gains reported by taxpayers increased 4.4 percent in 2006 and an estimated 8 percent in 2007; they are expected to decline 55 percent in 2008 and 10 percent in 2009.

Figure REV-04 shows the portion of General Fund revenues from capital gains.

Figure REV-03  
Percent of Taxpayers and Percent of Tax Paid by Adjusted Gross Income Class  
2006 State Tax Data

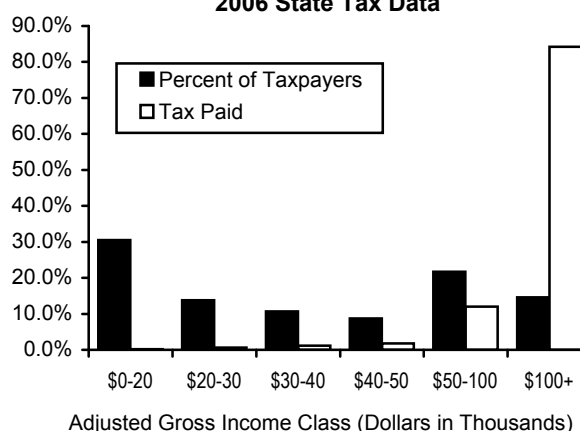


Figure REV-04  
Capital Gains  
As a Percent of General Fund Revenues  
(Dollars in Billions)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007 p</u>	<u>2008 e</u>	<u>2009 e</u>
Capital Gains Income	\$91.0	\$117.6	\$50.7	\$35.5	\$47.6	\$76.3	\$112.4	\$117.3	\$126.7	\$57.0	\$51.3
<b>Tax at 9%</b>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Capital Gains Tax	\$8.2	\$10.6	\$4.6	\$3.2	\$4.3	\$6.9	\$10.1	\$10.6	\$11.4	\$5.1	\$4.6
<b>Total General Fund Revenues &amp; Transfers</b>	\$71.9	\$71.4	\$72.3	\$71.3	\$74.9	\$82.2	\$93.5	\$95.5	\$99.3	\$91.1	\$97.7
<b>Capital Gains as % of General Fund</b>											
	<u>99-00</u>	<u>00-01</u>	<u>01-02</u>	<u>02-03</u>	<u>03-04</u>	<u>04-05</u>	<u>05-06</u>	<u>06-07</u>	<u>07-08</u>	<u>08-09</u>	<u>09-10</u>
Capital Gains	11.4%	14.8%	6.3%	4.5%	5.7%	8.3%	10.8%	11.1%	11.5%	5.6%	4.7%

<sup>p</sup> Preliminary

<sup>e</sup> Estimated

Note: Totals may not add due to rounding

2002-03 revenues do not include \$9.242 billion in economic recovery bonds.

2003-04 revenues do not include \$2.012 billion in economic recovery bonds.

2007-08 revenues do not include \$3.313 billion in economic recovery bonds.

**ADDITIONAL INFORMATION**

The Franchise Tax Board, which administers the personal income tax and corporation tax, prepares an annual report providing information on income subject to tax, tax rates, tax collections, and taxpayer characteristics. Its website, [www.ftb.ca.gov](http://www.ftb.ca.gov), includes this annual report. Information on personal income tax and corporation tax exclusions, deductions, and credits is also available in the Department of Finance's Tax Expenditure Report, published annually on the Internet at [www.dof.ca.gov](http://www.dof.ca.gov) in "Reports and Periodicals."

Some personal income tax revenue is deposited into a special fund. Proposition 63, passed in November 2004, imposes a surcharge of 1 percent on taxable income over \$1 million in addition to the 9.3 percent rate. Revenue from the surcharge is transferred to the Mental Health Services Fund for county mental health services. Revenues of \$1.512 billion are estimated for the 2007-08 fiscal year. Annual revenues of \$981 million for 2008-09, and \$887 million for 2009-10 are projected, reflecting the substantial declines in incomes of higher income taxpayers. Substantial portions of these revenues are received in the Mental Health Services Fund as settle-up transfers the second year following the year for which they are paid. (See the Department of Mental Health Services budget for information on transfers to and expenditures from the Mental Health Services Fund.)

The General Fund and the Mental Health Services Fund shares of personal income tax revenues for 2007-08 through 2009-10 are shown in Figure REV-05.

Figure REV-05

**Personal Income Tax Revenue**  
(Dollars in Thousands)

	<b>2007-08 Preliminary</b>	<b>2008-09 Forecast</b>	<b>2009-10 Forecast</b>
General Fund	\$54,233,970	\$46,807,000	\$47,942,000
Mental Health Services Fund	1,512,000	981,000	887,000
<b>Total</b>	<b>\$55,745,970</b>	<b>\$47,788,000</b>	<b>\$48,829,000</b>



## SALES AND USE TAX

Receipts from sales and use taxes, the state's second largest revenue source, are expected to contribute 34.6 percent of all General Fund revenues and transfers in 2009-10. Figure REV-06 displays sales and use tax revenues for the General Fund, as well as special funds, for 2006-07 through 2008-09. Revenues in 2008-09 and 2009-10 reflect the proposed sales tax increase and the proposal to extend the sales tax to additional services. The sales tax rate increase is expected to generate revenues of \$2.35 billion in 2008-09 and \$7.114 billion in 2009-10. Broadening the base to include certain services is estimated to raise revenues of \$272 million in 2008-09, and \$1.154 billion in 2009-10.

The sales tax applies to sales of tangible personal property in California; the companion use tax applies to property purchased outside the state for use within California. Most retail sales and leases are subject to the tax. Exemptions from the tax for necessities such as food for home consumption, prescription drugs, and electricity make the tax less regressive. Other exemptions provide tax relief for purchasers of particular products — e.g., farm equipment, custom computer programs, or materials used in space flights.

The largest single component of the sales tax base is new motor vehicle dealer sales, accounting for 10.6 percent of all sales in 2006. Service station sales represented 7.8 percent of all sales in 2006, while building-related purchases accounted for 14.1 percent. Detailed taxable sales data by component is not yet available for all of 2007.

Taxable sales grew by an estimated 0.2 percent in 2007 (fourth quarter 2007 sales tax data is preliminary). Preliminary data for the first three quarters indicate that taxable

Figure REV-06  
**Sales Tax Revenue**  
(Dollars in Thousands)

	<b>2007-08 Preliminary</b>	<b>2008-09 Forecast</b>	<b>2009-10 Forecast</b>
General Fund	\$26,613,264	\$27,778,000	\$33,793,000
Sales and Use Tax-Realignment	2,805,238	2,665,951	2,652,357
Public Transportation Account	535,405	619,639	317,071
Mass Transportation Fund	621,967	939,408	47,447
Economic Recovery Fund	1,397,000	1,315,000	1,321,000
<b>Total</b>	<b>\$31,972,874</b>	<b>\$33,317,998</b>	<b>\$38,130,875</b>

## SALES AND USE TAX REVENUE (IN BILLIONS)

2007-08	\$26.613
2008-09 (Forecast)	\$27.778
2009-10 (Forecast)	\$33.793

## ADDITIONAL INFORMATION

The Board of Equalization, which administers the sales and use tax, tobacco tax, alcoholic beverage taxes, and fuel taxes provides additional information in its annual report, which is available on its website, [www.boe.ca.gov](http://www.boe.ca.gov). Information on sales tax exemptions is included in the Department of Finance's Tax Expenditure Report, published annually on the Internet at [www.dof.ca.gov](http://www.dof.ca.gov) in "Reports and Periodicals."

sales for the year are expected to decline by 4.5 percent in 2008. The slowdown in 2008 is attributed to continued weakness in the housing market, declining auto sales, tight credit markets, and rising unemployment. Taxable sales under current law are anticipated to further decline in 2009 by an estimated 7 percent. In 2010, a modest recovery is expected to yield taxable sales growth of 3.7 percent.

Sales and use tax revenues are forecast relating taxable sales to economic factors such as income, employment, housing starts, new vehicle sales, and inflation.

Current law requires that a portion of the sales tax on gasoline and diesel fuel go to the Public Transportation Account (PTA) and the Mass Transportation Fund (MTF). (The transportation community refers to the gasoline tax portion of this as "spillover" sales tax revenues.) Beginning in 2008-09, the first \$939 million of spillover revenues that would otherwise be transferred to the PTA will be transferred to the MTF. Including the sales tax on diesel fuel, an estimated \$1.557 billion in sales tax revenue will go to the PTA and MTF in 2008-09,

and an estimated \$365 million in 2009-10. Spillover and diesel revenues are expected to decrease significantly in 2009-10 due to much lower fuel prices.

Figure REV-07 displays the individual elements of the state and local sales tax rates. Figure REV-08 shows combined state and local tax rates for each county.

Figure REV-07

**State and Local Sales and Use Tax Rates****State Rates**

General Fund	4.75% or 5.00%	Pursuant to Sections 6051.3 and 6051.4 of the Revenue and Taxation Code, this rate is 5%, but may be temporarily reduced by 0.25% if General Fund reserves exceed specified levels. During 2001, the rate was 4.75%, and during 2002 and thereafter, this rate is 5.00%.
Local Revenue Fund	0.50%	Dedicated to local governments to fund health and social services programs transferred to counties as part of 1991 state-local realignment.
Economic Recovery Fund	0.25%	Beginning on July 1, 2004, a new temporary 0.25% state sales tax rate was imposed, with a corresponding decrease in the Bradley-Burns rate. These revenues are dedicated to repayment of Economic Recovery Bonds. Once these bonds are repaid, this tax will sunset and the Bradley-Burns rate will return to 1%.

**Local Uniform Rates<sup>1</sup>**

Bradley-Burns	0.75% <sup>2</sup> or 1.00%	Imposed by city and county ordinance for general purpose use. <sup>3</sup>
Transportation Rate	0.25%	Dedicated for county transportation purposes.
Local Public Safety Fund	0.50%	Dedicated to cities and counties for public safety purposes. This rate was imposed temporarily by statute in 1993 and made permanent by the voters later that year through passage of Proposition 172.

**Local Add-on Rates<sup>4</sup>**

Transactions and Use Taxes	up to 2.00%	May be levied in 0.125% or 0.25% increments <sup>5</sup> up to a combined maximum of 2.00% in any county. <sup>6</sup> Any ordinance authorizing a transactions and use tax requires approval by the local governing board and local voters.
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<sup>1</sup> These locally-imposed taxes are collected by the State for each city and county and are not included in the State's revenue totals.

<sup>2</sup> The 1 percent rate was temporarily decreased by 0.25 percent on July 1, 2004, and a new temporary 0.25 percent tax imposed to repay Economic Recovery Bonds. Cities and counties will receive additional property tax revenues equal to the 0.25 percent local sales tax reduction.

<sup>3</sup> The city tax constitutes a credit against the county tax. The combined rate is never more than 1 percent in any area (or 0.75 percent during the period when Economic Recovery Bonds are being repaid).

<sup>4</sup> These taxes may be imposed by voters in cities, counties, or special districts. The revenues are collected by the State for each jurisdiction and are not included in the State's revenue totals.

<sup>5</sup> Increments imposed at 0.125 percent are only allowed when revenues are dedicated for library purposes.

<sup>6</sup> An exception to the 2 percent maximum is Los Angeles County, which may impose up to 2.5 percent.

Figure REV-08  
**Combined State and Local Sales and Use Tax**  
**Rates by County**  
**(Rates in Effect on October 1, 2008)**

County	Tax Rate	County	Tax Rate	County	Tax Rate
Alameda .....	8.75%	Madera .....	7.75%	San Joaquin <sup>18/</sup> .....	7.75%
Alpine .....	7.25%	Marin <sup>9/</sup> .....	7.75%	San Luis Obispo <sup>19/</sup> ..	7.25%
Amador .....	7.25%	Mariposa .....	7.75%	San Mateo .....	8.25%
Butte .....	7.25%	Mendocino <sup>10/</sup> .....	7.25%	Santa Barbara .....	7.75%
Calaveras .....	7.25%	Merced <sup>11/</sup> .....	7.25%	Santa Clara .....	8.25%
Colusa <sup>1/..</sup> .....	7.25%	Modoc .....	7.25%	Santa Cruz <sup>20/</sup> .....	8.00%
Contra Costa <sup>2/</sup> .....	8.25%	Mono .....	7.25%	Shasta .....	7.25%
Del Norte .....	7.25%	Monterey <sup>12/</sup> .....	7.25%	Sierra .....	7.25%
El Dorado <sup>3/</sup> .....	7.25%	Napa .....	7.75%	Siskiyou .....	7.25%
Fresno <sup>4/</sup> .....	7.975%	Nevada <sup>13/</sup> .....	7.375%	Solano .....	7.375%
Glenn .....	7.25%	Orange <sup>14/</sup> .....	7.75%	Sonoma <sup>21/</sup> .....	7.75%
Humboldt <sup>5/</sup> .....	7.25%	Placer .....	7.25%	Stanislaus <sup>22/</sup> .....	7.375%
Imperial .....	7.75%	Plumas .....	7.25%	Sutter .....	7.25%
Inyo .....	7.75%	Riverside .....	7.75%	Tehama .....	7.25%
Kern <sup>6/</sup> .....	7.25%	Sacramento .....	7.75%	Trinity .....	7.25%
Kings .....	7.25%	San Benito <sup>15/</sup> .....	7.25%	Tulare <sup>23/</sup> .....	7.75%
Lake <sup>7/</sup> .....	7.25%	San Bernardino <sup>16/</sup> ....	7.75%	Tuolumne <sup>24/</sup> .....	7.25%
Lassen .....	7.25%	San Diego <sup>17/</sup> .....	7.75%	Ventura .....	7.25%
Los Angeles <sup>8/</sup> .....	8.25%	San Francisco .....	8.50%	Yolo <sup>25/</sup> .....	7.25%
				Yuba .....	7.25%

<sup>1/</sup> 7.75% for sales in the City of Williams.

<sup>2/</sup> 8.75% for sales in the Cities of Richmond, Pinole, and El Cerrito.

<sup>3/</sup> 7.50% for sales in the City of Placerville and 7.75% for sales in the City of South Lake Tahoe.

<sup>4/</sup> 8.475% for sales in the Cities of Reedley and Selma and 8.725% for sales in the City of Sanger.

<sup>5/</sup> 8.25% for sales in the City of Trinidad.

<sup>6/</sup> 8.25% for sales in the City of Delano.

<sup>7/</sup> 7.75% for sales in the City of Clearlake and the City of Lakeport.

<sup>8/</sup> 8.75% for sales in the Cities of Avalon and Inglewood and 9.25% for sales in the City of South Gate.

<sup>9/</sup> 8.25% for sales in the City of San Rafael.

<sup>10/</sup> 7.75% for sales in the Cities of Fort Bragg, Point Arena, Ukiah, and Willits.

<sup>11/</sup> 7.75% for sales in the City of Merced and the City of Los Banos.

<sup>12/</sup> 7.75% for sales in the Cities of Salinas and Sand City and 8.25% in the Cities of Del Rey Oaks, Pacific Grove, and Seaside.

<sup>13/</sup> 7.875% for sales in the Cities of Truckee and Nevada City.

<sup>14/</sup> 8.25% for sales in the City of Laguna Beach.

<sup>15/</sup> 8.00% for sales in the City of San Juan Bautista and 8.25% for sales in the City of Hollister.

<sup>16/</sup> 8.00% for sales in the City of Montclair and the City of San Bernardino.

<sup>17/</sup> 8.25% for sales in the Cities of El Cajon and Vista and 8.75% for sales in National City.

<sup>18/</sup> 8.00% for sales in the City of Stockton and 8.25% for sales in the City of Manteca.

<sup>19/</sup> 7.75% for sales in the Cities of Arroyo Grande, Morro Bay, Grover Beach, San Luis Obispo, and Pismo Beach.

<sup>20/</sup> 8.25% for sales in the Cities of Watsonville and Capitola and 8.50% for sales in the Cities of Scotts Valley and Santa Cruz.

<sup>21/</sup> 8.00% for sales in the City of Sebastopol and the City of Santa Rosa.

<sup>22/</sup> 7.875% for sales in the City of Ceres.

<sup>23/</sup> 8.00% for sales in the City of Visalia. 8.25% for sales in the Cities of Farmersville, Porterville, and Tulare.

<sup>24/</sup> 8.50% for sales in the City of Dinuba.

<sup>25/</sup> 7.75% for sales in the City of Sonora.

<sup>26/</sup> 7.75% for sales in the Cities of Woodland, West Sacramento, and Davis.

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**CORPORATION TAX**

Corporation tax revenues are expected to contribute 10.7 percent of all General Fund revenues and transfers in 2009-10. After growth of 14.9 percent in 2007-08, corporation tax revenues are expected to decline 13.9 percent in 2008-09, and grow 2.4 percent in 2009-10.

Corporation tax revenues are derived from the following sources:

- The franchise tax and the corporate income tax are levied at a rate of 8.84 percent on net profits. The former is imposed on corporations that do business in California, while the latter is imposed on corporations that derive income from California sources without doing business in the state. For example, a corporation that maintains a stock of goods in California to fill orders taken by independent dealers would be subject to the corporate income tax.
- Corporations that have a limited number of shareholders and meet other requirements to qualify for state Subchapter S status are taxed at a 1.5-percent rate rather than the 8.84 percent imposed on other corporations.
- Banks and other financial corporations pay the franchise tax plus an additional 2-percent tax on net income. This “bank tax” is in lieu of local personal property and business license taxes.
- The alternative minimum tax is similar to that in federal law. Imposed at a rate of 6.65 percent, the alternative minimum tax ensures that corporate taxpayers do not make excessive use of deductions and exemptions to avoid paying a minimum level of tax.
- A minimum franchise tax of \$800 is imposed on corporations subject to the franchise tax, but not on those subject to the corporate income tax. An \$800 minimum tax is also imposed on Limited Liability Companies, Limited Partnerships and Limited Liability Partnerships.
- In addition to an annual tax of \$800, a fee is imposed on Limited Liability Companies (LLC) based on total income. The fee ranges from \$900 for LLCs with income between \$250,000 and \$499,000, to \$11,790 for LLCs with income of \$5 million or more. LLCs with total income of less than \$250,000 do not pay this fee.
- The corporation tax forecast is based on an analysis of California taxable profits, employment rates, proprietors’ income, and actual cash receipts.

**CORPORATION TAX REVENUE  
(IN BILLIONS)**

2007-08	\$11.849
2008-09 (Forecast)	\$10.197
2009-10 (Forecast)	\$10.445

From 1943 through 1985, corporation tax liability as a percentage of profits closely tracked the corporation tax rate. Since 1986, tax liability as a percentage of profits has dropped below the expected level of 8.84 percent. Increasing S-corporation activity and use of credits have been the primary factors contributing to a divergence between profit and tax liability growth. Businesses that elect to form as S-corporations pay a reduced corporate rate, with the income and tax liability on that income passed through to owners and thus shifted to the personal income tax.

**INSURANCE TAX**

Most insurance written in California is subject to a 2.35-percent gross premiums tax. This premium tax takes the place of all other state and local taxes except those on real property and motor vehicles. In general, the basis of the tax is the amount of "gross premiums" received, less return premiums.

The Department of Finance conducts an annual survey to project insurance premium growth. Responses were received this year from a sample representing about 40 percent of the dollar value of premiums written in California.

**INSURANCE TAX REVENUE  
(IN BILLIONS)**

2007-08	\$2.173
2008-09 (Forecast)	\$1.831
2009-10 (Forecast)	\$1.798

In 2007, \$124.1 billion in taxable premiums were reported, a decrease of 0.1 percent over 2006. The most recent survey indicates that total premiums will decrease by 7.0 percent, and increase by 1.2 percent in 2008, and 2009, respectively. As reforms in workers' compensation insurance continue to take hold, taxable premiums from workers' compensation insurance continue to decrease. Survey respondents reported declines of 16.3 percent in 2008 and 1.1 percent in 2009.

## ALCOHOLIC BEVERAGE TAXES

In addition to the sales tax paid by retail purchasers, California levies an excise tax on distributors of beer, wine, and distilled spirits.

Alcoholic beverage revenue estimates are based on projections of total and per capita consumption for each type of beverage. Consumption of alcoholic beverages is expected to remain relatively flat over the forecast period.

### ALCOHOLIC BEVERAGE TAX RATES PER GALLON (JANUARY 1, 2009)

\$0.20 for beer, dry wine, and sweet wine

\$0.30 for sparkling wine

\$3.30 for distilled spirits

An increase of \$244 million in 2008-09 and \$585 million in 2009-10 is included to reflect the proposed nickel-per-drink tax increase, effective February 1, 2009. Under the proposal, the alcoholic beverage tax rates per gallon would become \$0.73 for beer, \$1.48 for wine, and \$7.57 for distilled spirits.

Revenues forecasted for 2008-09 and 2009-10 and 2007-08 collections are shown in Figure REV-09.

Figure REV-09  
**Beer, Wine, and Distilled Spirits Revenue**  
(Dollars in Millions)

	<b>2007-08 Preliminary</b>	<b>2008-09 Forecast</b>	<b>2009-10 Forecast</b>
Beer and Wine	\$157.6	\$338.2	\$597.0
Distilled Spirits	<u>169.7</u>	<u>260.8</u>	<u>358.3</u>
<b>Total</b>	<b>\$327.3</b>	<b>\$599.0</b>	<b>\$955.3</b>

## CIGARETTE TAX

The state imposes an excise tax of 87 cents per pack of 20 cigarettes on distributors selling cigarettes in California. An excise tax is also imposed on distribution of other tobacco products such as cigars, chewing tobacco, pipe tobacco, and snuff. The rate on other tobacco products is calculated annually by the Board of Equalization based on the wholesale price of cigarettes.

## REVENUE ESTIMATES

Revenues from the tax on cigarettes and other tobacco products are distributed as follows:

- Ten cents of the per-pack tax is allocated to the state General Fund.
- Fifty cents of the per-pack tax, and an equivalent rate levied on non-cigarette tobacco products, goes to the California Children and Families First Trust Fund for distribution according to the provisions of Proposition 10 of 1998.
- Twenty-five cents of the per-pack tax, and an equivalent rate levied on non-cigarette tobacco products, is allocated to the Cigarette and Tobacco Products Surtax Fund for distribution as determined by Proposition 99 of 1988.
- Two cents of the per-pack tax is deposited into the Breast Cancer Fund.

Projections of cigarette tax revenues are based on total and per capita consumption of cigarettes while revenue estimates for other tobacco products rely on wholesale price data. The cumulative effect of product price increases, the increasingly restrictive environments for smokers, and state anti-smoking campaigns funded by Proposition 99 revenues and revenues from the Master Tobacco Settlement has considerably reduced cigarette consumption.

Annual per capita consumption (based on population ages 18-64) declined from 123 packs in 1989-90 to 84 packs in 1997-98 and 47 packs in 2007-08, the latest year of actual data available. The long-term downward trend in consumption should continue to reduce cigarette tax revenues.

Figure REV-10 shows the distribution of tax revenues for the General Fund and various special funds for 2007-08 through 2009-10.

Figure REV-10  
**Tobacco Tax Revenue**  
(Dollars in Millions)

	<b>2007-08 Preliminary</b>	<b>2008-09 Forecast</b>	<b>2009-10 Forecast</b>
General Fund	\$109.9	\$113.0	\$111.0
Cigarette and Tobacco Products Surtax Fund	327.0	315.0	310.0
Breast Cancer Fund	22.0	23.0	22.0
California Children and Families First Trust Fund	577.0	581.0	570.0
Cigarette and Tobacco Products Compliance Fund	1.9	1.3	1.3
<b>Total</b>	<b>\$1,037.8</b>	<b>\$1,033.3</b>	<b>\$1,014.3</b>



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## PROPERTY TAXES

Article XIII A of the State Constitution (Proposition 13) provides that property is assessed at its 1975 fair market value until it changes ownership. When ownership changes, the assessed value is redetermined based on the property's current market value. New construction is assessed at fair market value when construction is completed. A property's base year value may be increased by an inflation factor, not to exceed two percent annually.

Although the property tax is generally considered a local revenue source, the amount of property tax generated each year has a substantial impact on the state budget because local property tax revenues allocated to K-14 schools offset General Fund expenditures. Assessed value growth is estimated based on twice-yearly surveys of county assessors and evaluation of real estate trends. Assessed value is estimated to grow 4.4 percent in 2008-09 and 0.3 percent in 2009-10.

Property taxes received by school districts and reflected in the Department of Education and Community Colleges budgets are significantly below projections used for the 2008-09 Budget. While a recent audit performed by the State Controller indicates local allocations of revenues are being performed correctly, the audit did not provide clear indications regarding the reasons why school property tax receipts are less than estimated using assessed value growth. Estimates for the Governor's Budget reflect \$474 million in lower actual receipts in 2007-08 and that base is carried forward in subsequent years.

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## ESTATE/INHERITANCE/GIFT TAXES

Proposition 6, adopted in June 1982, repealed the inheritance and gift taxes and imposed a tax known as "the pick-up tax," because it was designed to pick up the maximum state credit allowed against the federal estate tax without increasing total taxes paid by the estate. The pick-up tax is computed based on the federal "taxable estate," with tax rates ranging from 0.8 percent to 16 percent.

The Economic Growth and Tax Relief Reconciliation Act of 2001 phases out the federal estate tax by 2010. The Act reduced the state pick-up tax by 25 percent in 2002, 50 percent in 2003, 75 percent in 2004, and eliminated it beginning in 2005. The provisions of the federal Act sunset after 2010, at which time the federal and state estate taxes will be reinstated.

Some revenues from this tax continue to be collected from estates established prior to 2005.

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### **OTHER REVENUES**

#### **INDIAN GAMING**

Indian gaming revenues that are deposited in the General Fund are estimated to be \$362 million in 2008-09 and \$393 million in 2009-10, reflecting reduced estimates of \$123 million and \$192 million respectively, due to the decision by one tribe not to ratify their new compact and the reduction in cash receipts in the last quarter from existing operations, which are driven by the downturn in the economy.

#### **UNCLAIMED PROPERTY**

The Governor's Budget reflects revenues of \$162 million in 2008-09 and \$153 million in 2009-10 from unclaimed property, reflecting reduced estimates of \$122 million in 2008-09 and 2009-10. This is due to increased returns to property owners and reduced earnings on securities.

#### **EDFUND**

The estimate of \$500 million from the sale of the EdFund has been removed from the revenue estimates for 2009-10. While the Administration is continuing to pursue the sale of EdFund, the timing and value of that sale are unclear at this point given the many changes that have occurred in the capital markets and federal student loan guarantee policy.

#### **STATE LANDS ROYALTIES**

Royalties on state land oil and gas production is estimated at \$327 million in 2008-09 and \$90 million in 2009-10, reflecting reduced estimates of \$252 million and \$272 million respectively. This is due to the rapid decline in oil prices.

#### **SPECIAL FUND LOANS AND TRANSFERS**

Additional transfers of surplus balances in special funds of \$34.2 million are proposed in 2008-09. Loans from special funds, which will not harm the essential functions of those special funds' programs, of \$264 million in 2008-09 and \$94.4 million in 2009-10 are also proposed.

## SPECIAL FUND REVENUE

The California Constitution and state statutes specify into which funds certain revenues must be deposited and how they are to be spent. Special fund revenues consist of

- Receipts from tax levies allocated to specified functions, such as motor vehicle taxes and fees.
- Charges such as business and professional license fees.
- Rental royalties and other receipts designated for particular purposes, such as oil and gas royalties.

Taxes and fees related to motor vehicles comprised about 35 percent of all special fund revenue in 2007-08. The principal sources are motor vehicle fees (registration, weight, and vehicle license fees) and motor vehicle fuel taxes. During 2008-09, it is expected that \$8.9 billion in revenues will be derived from the ownership or operation of motor vehicles, a 3.1-percent increase from 2007-08. About 37 percent of all motor vehicle taxes and fees will be returned to local governments, and the remaining portion will be used for state transportation programs.

## MOTOR VEHICLE FEES

Motor vehicle fees consist of vehicle license, registration, weight, and driver's license fees, and other charges related to vehicle operation. Figure REV-11 displays revenue from these sources from 2007-08 through 2009-10.

Figure REV-11  
**Motor Vehicle Fees Revenue**  
(Dollars in Thousands)

	<b>2007-08 Preliminary</b>	<b>2008-09 Forecast</b>	<b>2009-10 Forecast</b>
Vehicle License Fees	\$557,759	\$533,800	\$544,868
Realignment	1,685,480	1,610,221	1,643,248
Registration, Weight, and Other Fees	<u>2,942,205</u>	<u>3,440,818</u>	<u>3,993,204</u>
<b>Total</b>	<b>\$5,185,444</b>	<b>\$5,584,839</b>	<b>\$6,181,320</b>

**Proposal to Increase Vehicle Registration and Driver's License Fees:** The Budget proposes an increase of \$12 per vehicle to the registration fee to support state vehicle registration operations. This will generate \$92 million in 2008-09 for partial year implementation, increasing to \$359 million for full-year implementation in 2009-10. Vehicle License Fee (VLF) revenues will in turn be directed to local public safety programs. Additionally, the Budget also proposes an increase of \$3 to the driver's license fee, which will generate an estimated \$16.5 million in budget year. The revenues will fund the increased costs of new driver license/identification/sales person cards, as well as increased DMV staffing costs to begin implementation of REAL ID, which strengthens driver license/identification card integrity by requiring minimum security standards.

The VLF is imposed on vehicles that travel on public highways in California. This tax is imposed instead of a local personal property tax on automobiles and is administered by the Department of Motor Vehicles. Revenues from the existing VLF rate, other than administrative costs and fees on trailer coaches and mobile homes, are constitutionally dedicated to local governments.

The number of vehicles in the state, the ages of those vehicles, and their most recent sales price affect the amount of VLF raised. The total number of vehicles in California —autos, trucks, trailers, and motorcycles as well as vehicles registered in multiple states —is estimated to be 31,174,000 in 2008-09 and 30,997,000 in 2009-10. The forecast assumes that there will be 1,994,000 new vehicles in 2009-10.

The VLF is calculated on the vehicle's "market value," adjusted for depreciation. The motor vehicle schedule is based on an 11-year depreciation period; for trailer coaches it is an 18-year period. A 0.65-percent rate is applied to the depreciated value to determine the fee.

Chapter 87, Statutes of 1991, revised the VLF depreciation schedule and required the Department of Motor Vehicles to reclassify used vehicles based on their actual purchase price each time ownership is transferred. Revenue from this base change is transferred to the Local Revenue Fund for state-local program realignment.

Chapter 322, Statutes of 1998, established a program to offset a portion of the VLF paid by vehicle owners at the 2-percent rate. The state paid or "offset" a portion of the amount due and taxpayers paid the balance. This General Fund offset gave taxpayers significant tax relief and compensated local governments. A permanent offset of 25 percent of the amount of the VLF owed became operative in 1999. Chapter 74,

Statutes of 1999, increased the offset to 35 percent on a one-time basis for the 2000 calendar year. Chapters 106 and 107, Statutes of 2000, and Chapter 5, Statutes of 2001, extended the 35-percent offset through June 30, 2001, and provided an additional 32.5 percent VLF reduction, which was returned to taxpayers in the form of a rebate. Beginning July 1, 2001, the VLF was reduced by 67.5 percent. As the amount paid by taxpayers decreased, the amount backfilled by the General Fund increased.

The VLF reduction was suspended for a 141-day period beginning July 1, 2003. Executive Order S-1-03, issued November 17, 2003, rescinded the offset suspension and directed the Department of Motor Vehicles to reinstate the offset as soon as administratively feasible.

Chapter 211, Statutes of 2004, eliminated the VLF offset and reduced the VLF tax rate to 0.65 percent. Local governments now receive property tax revenues to compensate them for the loss of VLF revenue. In 2004-05 and 2005-06, that replacement revenue was reduced by \$1.3 billion to assist the state.

The Department of Motor Vehicles administers the VLF for trailer coaches that are not installed on permanent foundations. Those that are installed on permanent foundations (mobile homes) are subject to either local property taxes or the VLF. Generally, mobile homes purchased new prior to July 1, 1980, are subject to the VLF. All trailer coach license fees are deposited in the General Fund.

In addition to the VLF, commercial truck owners pay a fee based on vehicle weight. Chapter 861, Statutes of 2000, and Chapter 719, Statutes of 2003, revised the fee schedules to conform to the federal International Registration Plan.

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## **MOTOR VEHICLE FUEL TAXES**

The motor vehicle fuel tax, diesel fuel tax, and the use fuel tax are the major sources of funds for maintaining, replacing, and constructing state highway and transportation facilities. Just over one-third of these revenues is apportioned to local jurisdictions for street and highway use.

Gasoline consumption fell by 2.7 percent during 2007-08, due primarily to substantially higher pump prices. Gasoline consumption is expected to decrease 1.4 percent in 2008-09 and 1.6 percent in 2009-10.

Because most diesel fuel is consumed by the commercial trucking industry, consumption is affected most significantly by general economic conditions. Diesel fuel

consumption fell 2.9 percent in 2007-08, and is expected to decline 1 percent in 2008-09 and 0.8 percent in 2009-10.

Motor vehicle fuel tax collections are shown in Figure REV-12.

Figure REV-12  
**Motor Vehicle Fuel Tax Revenue**  
(Dollars in Thousands)

	<b>2007-08 Preliminary</b>	<b>2008-09 Forecast</b>	<b>2009-10 Forecast</b>
Gasoline <sup>1</sup>	\$2,826,150	\$2,729,976	\$2,686,986
Diesel	591,824	556,458	552,572
<b>Total</b>	<b>\$3,417,974</b>	<b>\$3,286,434</b>	<b>\$3,239,558</b>

<sup>1</sup> Does not include jet fuel.

The motor vehicle fuel tax (gas tax) is collected from distributors when fuel is loaded into ground transportation for transport to retail stations. This fuel is taxed at a rate of 18 cents per gallon. Fuels subject to the gas tax include gasoline, natural gas, and blends of gasoline and alcohol sold for use on public streets and highways.

Distributors pay the diesel fuel tax, which applies to both pure diesel fuel and blends, at the fuel terminal. Diesel fuel for highway use is taxed at a rate of 18 cents per gallon. Dyed diesel fuel, which is destined for off-highway uses such as farm equipment, is not taxed.

The use fuel tax is levied on sales of kerosene, liquefied petroleum gas (LPG), liquid natural gas (LNG), compressed natural gas (CNG), and alcohol fuel (ethanol and methanol containing 15 percent or less gasoline and diesel fuel). These fuels are taxed only when they are dispensed into motor vehicles used on the highways. Current use fuel tax rates are 18 cents per gallon for kerosene, 6 cents per gallon for LPG and LNG, 7 cents per 100 cubic feet for CNG, and 9 cents per gallon for alcohol fuel. Users of LPG, LNG, or CNG may elect to pay a flat rate of tax based on vehicle weight instead of the per-gallon tax.

An excise tax of 2 cents per gallon is levied on aircraft jet fuel sold at the retail level. This tax does not apply to commercial air carriers, aircraft manufacturers and repairers, and the U.S. armed forces.

Local transit systems, school and community college districts, and certain common carriers pay 1 cent per gallon on the fuel they use instead of the tax rates described above.